

The Saudi Connection:

How billions in oil money spawned a global terror network

By David E. Kaplan (U.S. News & World Report, 12/15/03)

The CIA's Illicit Transactions Group isn't listed in any phone book. There are no entries for it on any news database or Internet site. The ITG is one of those tidy little Washington secrets, a group of unsung heroes whose job is to keep track of smugglers, terrorists, and money launderers. In late 1998, officials from the White House's National Security Council called on the ITG to help them answer a couple of questions: How much money did Osama bin Laden have, and how did he move it around? The queries had a certain urgency. A cadre of bin Laden's al Qaeda terrorists had just destroyed two of America's embassies in East Africa. The NSC was determined to find a way to break the organization's back. Working with the Illicit Transactions Group, the NSC formed a task force to look at al Qaeda's finances. For months, members scoured every piece of data the U.S. intelligence community had on al Qaeda's cash. The team soon realized that its most basic assumptions about the source of bin Laden's money--his personal fortune and businesses in Sudan--were wrong. Dead wrong. Al Qaeda, says William Wechsler, the task force director, was "a constant fundraising machine." And where did it raise most of those funds? The evidence was indisputable: Saudi Arabia.

America's longtime ally and the world's largest oil producer had somehow become, as a senior Treasury Department official put it, "the epicenter" of terrorist financing. This didn't come entirely as a surprise to intelligence specialists. But until the attacks of Sept. 11, 2001, U.S. officials did painfully little to confront the Saudis not only on financing terror but on backing fundamentalists and jihadists overseas. Over the past 25 years, the desert kingdom has been the single greatest force in spreading Islamic fundamentalism, while its huge, unregulated charities funneled hundreds of millions of dollars to jihad groups and al Qaeda cells around the world. Those findings are the result of a five-month investigation by U.S. News. The magazine's inquiry is based on a review of thousands of pages of court records, U.S. and foreign intelligence reports, and other documents. In addition, the magazine spoke at length with more than three dozen current and former counterterrorism officers, as well as government officials and outside experts in Riyadh, the Saudi capital. Among the inquiry's principal findings:

- Starting in the late 1980s--after the dual shocks of the Iranian revolution and the Soviet war in Afghanistan--Saudi Arabia's quasi-official charities became the primary source of funds for the fast-growing jihad movement. In some 20 countries, the money was used to run paramilitary training camps, purchase weapons, and recruit new members.
- The charities were part of an extraordinary \$70 billion Saudi campaign to spread their fundamentalist Wahhabi sect worldwide. The money helped lay the foundation for hundreds of radical mosques, schools, and Islamic centers that have acted as support networks for the jihad movement, officials say.
- U.S. intelligence officials knew about Saudi Arabia's role in funding terrorism by 1996, yet for years Washington did almost nothing to stop it. Examining the Saudi role in terrorism, a senior intelligence analyst says, was "virtually taboo." Even after the embassy bombings in Africa, moves by counterterrorism officials to act against the Saudis were repeatedly rebuffed by senior staff at the State Department and elsewhere who felt that other foreign policy interests outweighed fighting terrorism.
- Saudi largess encouraged U.S. officials to look the other way, some veteran intelligence officers say. Billions of dollars in contracts, grants, and salaries have gone to a broad range of former U.S. officials who had dealt with the Saudis: ambassadors, CIA station chiefs, even cabinet secretaries.
- Washington's unwillingness to confront the Saudis over terrorism was part of a broader strategic failure to sound the alarm on the rise of the global jihad movement. During the 1990s, the U.S. intelligence community issued a series of National Intelligence Estimates--which report on America's global challenges--on ballistic missile threats, migration, infectious diseases; yet the government

never issued a single NIE on the jihad movement or al Qaeda.

Propaganda. Saudi officials argue that their charities have done enormous good work overseas and that the problems stem from a few renegade offices. They say, too, that Riyadh is belatedly cracking down, much as Washington did after 9/11. "These people may have taken advantage of our charities," says Adel al-Jubeir, foreign affairs adviser to the crown prince. "We're looking into it, and we've taken steps to ensure it never happens again."

To understand why the Saudis would fund a movement that now terrorizes even their own society, some history is in order. The Kingdom of Saudi Arabia was born of a kind of marriage of convenience between the House of Saud and the strict Wahhab sect of Islam. In the 18th century, Mohammed ibn Saud, a local chieftain and the forebear of today's ruling family, allied himself with fundamentalists from the Wahhab sect. Over the next 200 years, backed by the Wahhabis, Saud and his descendants conquered much of the Arabian peninsula, including Islam's holiest sites, in Mecca and Medina. Puritanical and ascetic, the Wahhabis were given wide sway over Saudi society, enforcing a strict interpretation of certain Koranic beliefs. Their religious police ensured that subjects prayed five times a day and that women were covered head to toe. Rival religions were banned, criminals subjected to stoning, lashing, and beheading.

The Wahhabis were but one sect among a back-to-the-roots movement in Islam that had limited attraction overseas. But that began to change, first with the flood of oil money in the 1970s, which filled Saudi coffers with billions of petrodollars. Next came the Iranian revolution and the Soviet invasion of Afghanistan, in 1979. Most ominously for the Saudis, however, was a third shock that same year: the brief but bloody takeover by militants of the Grand Mosque in Mecca.

Threatened within the kingdom, and fearful that the radicals in Tehran would assert their own leadership of the Muslim world, the Saudis went on a spending spree. From 1975 through last year, the kingdom spent over \$70 billion on overseas aid, according to a study of official sources by the Center for Security Policy, a Washington think tank. More than two thirds of that amount went to "Islamic activities"--building mosques, religious schools, and Wahhabi religious centers, says the CSP's Alex Alexiev, a former CIA consultant on ethnic and religious conflict. The Saudi funding program, Alexiev says, is "the largest worldwide propaganda campaign ever mounted"--dwarfing the Soviets' propaganda efforts at the height of the Cold War. The Saudi weekly *Ain al-Yaqeen* last year reported the cost as "astronomical" and boasted of the results: some 1,500 mosques, 210 Islamic centers, 202 colleges, and nearly 2,000 schools in non-Islamic countries.

Key to this evangelical tour de force were charities closely tied to Saudi Arabia's ruling elite and top clerics. With names like the Muslim World League and its affiliate, the International Islamic Relief Organization, the funds spent billions more to spread Wahhabism. The IIRO, for example, took credit for funding 575 mosques in Indonesia alone. Accompanying the money, invariably, was a blizzard of Wahhabist literature. Wahhabist clerics led the charge, causing moderate imams to worry about growing radicalism among the faithful. Critics argue that Wahhabism's more extreme preachings--mistrust of infidels, branding of rival sects as apostates, and emphasis on violent jihad--laid the groundwork for terrorist groups around the world.

Princely giving. If the Saudis' efforts had been limited to pushing fundamentalism abroad, their work would have been cause for controversy. But some Saudi charities played a far more troubling role. U.S. officials now say that key charities became the pipelines of cash that helped transform ragtag bands of insurgents and jihadists into a sophisticated, interlocking movement with global ambitions. Many of those spreading the Wahhabist doctrine abroad, it turned out, were among the most radical believers in holy war, and they poured vast sums into the emerging al Qaeda network. Over the past decade, according to a 2002 report to the United Nations Security Council, al Qaeda and its fellow jihadists collected between \$300 million and \$500 million--most of it from Saudi charities and private donors.

The origins of al Qaeda are intimately bound up with the Saudi charities, intelligence analysts now realize. Osama bin Laden and his followers were not exactly holy warriors; they were unholy fundraisers. In Afghanistan, Riyadh and Washington together ponied up some \$3.5 billion to fund the mujahideen--the Afghan fighters who took on the Soviets. At the same time, men like bin Laden

served as fundraisers for the thousands of foreign jihadists streaming into Afghanistan. By persuading clerics across the Muslim world to hand over money from zakat, the charitable donations that are a cornerstone of Islam, they collected huge sums. They raised millions more from wealthy princes and merchants across the Middle East. Most important, they joined forces with the Saudi charities, many already moving aid to the fighters.

Afghanistan forged not only financial networks but important bonds among those who believe in violent jihad. During the Afghan war, the man who ran the Muslim World League office in Peshawar, Pakistan, was bin Laden's mentor, Abdullah Azzam. Another official there was Wael Julaidan, a Saudi fundraiser who would join bin Laden in founding al Qaeda in 1988. Documents seized in raids after 9/11 reveal just how close those ties were. One record, taken from a Saudi-backed charity in Bosnia, bears the handwritten minutes of a meeting between bin Laden and three men, scrawled beneath the letterhead of the IIRO and Muslim World League. The notes call for the opening of "league offices . . . for the Pakistanis," so that "attacks" can be made from them. A note on letterhead of the Saudi Red Crescent--Saudi Arabia's Red Cross--in Peshawar asks that "weapons" be inventoried. It is accompanied by a plea from bin Laden to Julaidan, citing "an extreme need for weapons."

After the Soviets left Afghanistan in disgrace, bin Laden moved his fledgling al Qaeda to Sudan, in 1992. By then a perfect storm of Islamic radicalism was gathering across the Muslim world. Some "Afghan Arab" veterans of Afghanistan now eyed radical change in their homelands, where secular and corrupt regimes held sway. Others set out for lands where they saw fellow Muslims oppressed, such as Kashmir and Bosnia. Saudis rich and poor responded with donations at thousands of zakat boxes in mosques, supermarkets, and schools, doling out support for besieged Muslims in Algeria, Bosnia, Kashmir, the West Bank, and Gaza. Millions poured in.

The Saudi charities opened offices in hot spots around the globe, with virtually no controls on how the money was spent, U.S. officials say. The donors funded many worthy projects, supporting orphanages and hospitals, and providing food, clothing, and medicine to refugees. But by 1994, Riyadh was starting to get complaints--from the French interior minister about Saudi funds reaching Algerian terrorists and from President Clinton about their funding of Hamas, whose suicide bombers were wreaking havoc on the Middle East peace process. More concerns surfaced in the Philippines, where an investigation of an al Qaeda plot to murder the pope and bomb a dozen U.S. airliners led to the local IIRO office. Its director was a brother-in-law of bin Laden's, Muhammad Jamal Khalifa, who was busily funneling cash to the region's top Islamic guerrilla groups, Abu Sayyaf and the Moro Islamic Liberation Front.

Who's who. It was Bosnia, though, that finally caught the sustained attention of the CIA. In the early '90s, the ethnic-cleansing policies of the Serbs drew hundreds of foreign jihadists to the region to help defend Bosnian Muslims. Saudi money poured in, too. Saudi donors sent \$150 million through Islamic aid organizations to Bosnia in 1994 alone, the U.S. Embassy in Riyadh reported. But large sums were winding up in the wrong hands. A CIA investigation found that a third of the Islamic charities in the Balkans--among them the IIRO--had "facilitated the activities of Islamic groups that engage in terrorism," including plots to kidnap or kill U.S. personnel. The groups were a who's who of Islamic terrorism: Hamas, Hezbollah, Algerian extremists, and Egypt's Al-Gama'a al-Islamiyya, whose spiritual head, Sheik Omar Abdel Rahman, later earned a life sentence for plotting to bomb the United Nations and other New York landmarks.

In a classified report in 1996, CIA officials finally pulled together what they had on Islamic charities. The results were disturbing. The agency identified over 50 Islamic charities engaged in international aid and found that, as in the Balkans, fully a third of them were tied to terrorist groups. "Islamic activists dominate the leadership of the largest charities," the report noted. "Even high-ranking members of the collecting or monitoring agencies in Saudi Arabia, Kuwait, and Pakistan--such as the Saudi High Commission--are involved in illicit activities, including support for terrorists."

As front organizations, the charities were ideal. Some provided safe houses, false identities, travel documents. Others offered arms and materiel. Nearly all dispensed sizable amounts of cash, according to the CIA, with little or no documentation. And they were, it seemed, everywhere. By the mid-1990s, the Muslim World League fielded some 30 branches worldwide, while the IIRO had offices in over 90 countries. The CIA found that the IIRO was funding "six militant training camps in Afghanistan,"

where Riyadh was backing a then obscure sect called the Taliban, whose religious practices were close to Wahhabism. The head of a Muslim World League office in Pakistan was supplying league documents and arms to militants in Afghanistan and Tajikistan. Another Saudi charity had begun funding rebels in Chechnya.

"Chatter." Although they called themselves private foundations, these were not charities in the sense that Americans understand the term. The Muslim World League and the IIRO, for example, are overseen by the grand mufti of Saudi Arabia, the kingdom's highest religious authority. They receive substantial funds from the government and members of the royal family and make use of the Islamic affairs offices of Saudi embassies abroad. The Muslim World League's current secretary general, Abdullah Al-Turki, served as the kingdom's minister of Islamic affairs for six years. "The Muslim World League, which is the mother of IIRO, is a fully government-funded organization," the IIRO's Canadian head testified in a 1999 court case. "In other words, I work for the government of Saudi Arabia."

The year of the CIA report, 1996, was also when Osama bin Laden moved back to Afghanistan, after a four-year sojourn in Sudan. Protected by the Taliban, and with money pouring in, bin Laden, finally, went operational. He opened new training camps, and sent cash to established terrorist groups and seed money to start-ups. Then he began plotting strikes against the United States, even issuing a long fatwa, or religious edict, summoning devout Muslims to wage jihad on America. The fatwa received little publicity, but bin Laden now had alarm bells ringing at the CIA. "He seemed to turn up under every terrorist rock," remembers a senior counterterrorism official. At CIA headquarters, the agency set up a "virtual station" on bin Laden, pooling resources to track his operations.

U.S. intelligence agencies, meanwhile, were picking up disturbing "chatter" out of Saudi Arabia. Electronic intercepts of conversations implicated members of the royal family in backing not only al Qaeda but also other terrorist groups, several intelligence sources confirmed to U.S. News. None were senior officials--the royal family has some 7,000 members. But several intercepts implicated some of the country's wealthiest businessmen. "It was not definitive but still very disturbing," says a senior U.S. official. "That was the year we had to admit the Saudis were a problem."

Despite the mounting evidence, the issue of Saudi complicity with terrorists was effectively swept under the diplomatic rug. Counterterrorism experts offer several reasons. For one, this was five years before the 9/11 attacks, and terrorism simply wasn't seen as the strategic threat it is today. Only a dozen or so Americans were killed each year in terrorist attacks. Moreover, in many of the jihad struggles, Washington was neutral, as in Kashmir, or even supportive, as in Bosnia. When Saudi money began financing jihadists headed to Chechnya, Washington responded with "a wink and a nod," as one analyst put it. The level and impact of all the Saudi funding were also difficult to discern. "We knew the outlines," explains Judith Yaphe, a senior Middle East analyst at the CIA until 1995. "But before 9/11, much of it had to be intuited. It was like the blind man examining the elephant."

There were other reasons. In much of official Washington, a growing movement of Third World religious zealots was just not taken seriously. For years after the fall of the Berlin Wall, those running U.S. intelligence were "Soviet people" still fighting the Cold War, says Pat Lang, who served as chief Middle East analyst for the Defense Intelligence Agency during the 1990s. "The jihadists were like men from Mars to them." Peter Probst, then a senior counterterrorism official at the Pentagon, agrees. "Any time you would raise these threats, people would laugh," he recalls. "They would say I was being totally paranoid."

The fact that the movement was based on Islam made it more difficult to discuss. "There was a fear that it was too sensitive, that you'd be accused of discrimination," Probst says. "It was political correctness run amok." Others say the message was subtle but clear. In the CIA, merely getting permission to prepare a report on a subject can require up to five levels of approval. On the subject of Saudi ties to terrorism, the word came back: There was simply no interest. The result, says a CIA veteran, was "a virtual embargo."

The FBI fared little better. By 1998, a sprawling investigation in Chicago into terrorist fundraising had led federal agents to \$1.2 million looted from a local chemical firm. The money, they suspected, had been sent to Hamas. The G-men found the source of the cash curious: a Saudi charity, the IIRO,

which had funneled the money through the Saudi Embassy. Senior Justice Department officials expressed concerns about "national security," and the case, eventually, was dropped. "Did someone say to me we can't do this because it would offend the Saudis? No," says Mark Flessner, a prosecutor on the case. "But was that always an undertone? Yes. Was that a huge issue? Yes."

It didn't hurt that the Saudis had spread money around Washington by the millions. Vast sums from Saudi contracts have bought friends and influence here. In his recent book *Sleeping With the Devil: How Washington Sold Our Soul for Saudi Crude*, former CIA operative Bob Baer calls it "Washington's 401(k) Plan." "The Saudis put out the message," Baer wrote. "You play the game--keep your mouth shut about the kingdom--and we'll take care of you." The list of beneficiaries is impressive: former cabinet secretaries, ambassadors, and CIA station chiefs. Washington lobbyists, P.R. firms, and lawyers have also supped at the Saudi table, as have nonprofits from the Kennedy Center to presidential libraries. The high-flying Carlyle Group has made fortunes doing deals with the Saudis. Among Carlyle's top advisers have been former President George H.W. Bush; James Baker, his secretary of state; and Frank Carlucci, a former secretary of defense. If that wasn't enough, there was the staggering amount of Saudi investment in America--as much as \$600 billion in U.S. banks and stock markets.

That kind of clout may help explain why the House of Saud could be so dismissive of American concerns on terrorism. Official inquiries about bin Laden went unanswered by Riyadh. When Hezbollah terrorists killed 19 U.S. troops with a massive truck bomb at Khobar Towers in Dhahran in 1996, Saudi officials stonewalled, then shut the FBI out of the investigation. So sensitive were relations that the CIA instructed officials at its Riyadh station not to collect intelligence on Islamic extremists--even after the bombing--for fear of upsetting their host, former officers tell U.S. News.

Payoffs. The attacks on the U.S. embassies in Kenya and Tanzania in August 1998 changed all that. Within weeks, the NSC formed its task force on terrorist finances, drawing in members from the Treasury Department and the CIA's Illicit Transactions Group. (The ITG was later absorbed into the agency's Counterterrorism Center.) In the movies, U.S. intelligence often seems capable of extraordinary feats. In the real world, alas, Washington's reach is all too limited. Officials on the task force were quickly sobered by the handful of people they found with true expertise on the Middle East. Those knowledgeable about terrorist financing numbered even fewer. So limited was the CIA's knowledge that it began using al Qaeda's real name only that year--10 years after bin Laden founded the organization. Even less was known about al Qaeda's fellow jihadists around the globe. Its top ally in Southeast Asia, Jemmah Islamiya, was not targeted until after 9/11, according to an Australian intelligence report.

Other challenges loomed. The Islamic world has always been a difficult target for Western intelligence services, and terrorist cells are among the toughest to penetrate. Following criminal money is also a tortuous task. Drawing a bead on al Qaeda combined all three challenges. The NSC task force tried to formulate what staffers called "a theory of the case." Their first questions were simple: What did it cost to be bin Laden? How much did it take to fund al Qaeda?

Terrorist acts, even the so-called spectaculars like 9/11, are relatively cheap to carry out. But the more the task force studied al Qaeda, the bigger its budget appeared. With its training camps and operations, and payments to the Taliban and to other terror groups, the amount was surely in the millions, task-force members surmised. After finding that bin Laden's inherited wealth was largely gone and his Sudanese businesses failing, the question was, where did the money come from? The answer, they eventually concluded, was Saudi charities and private donors.

The charities, by 1999, were integrated even further into the jihadist movement. In India, police detained Sayed Abu Nasir, a longtime IIRO staffer, for plotting to bomb U.S. consulates. Nasir confessed that the organization was secretly supporting dozens of jihadist training camps in Pakistan and Afghanistan. Equally striking was the al Haramain Foundation, one of Saudi Arabia's largest, which dispensed \$50 million a year through some 50 offices worldwide. U.S. officials would eventually conclude that its branches in at least 10 countries were providing arms or cash to terrorists, including those in Indonesia, Pakistan, and Somalia. In Southeast Asia, al Haramain was acting as a key source of funds for al Qaeda; in Chechnya, Russian officials suspected it of moving \$1 million to the rebels and arranging the purchase of 500 "heavy weapons" from the Taliban.

There was more. In the Middle East, the CIA learned, Saudi donations were funding as much as half of Hamas's budget and paying off the families of suicide bombers. In Pakistan, so much Saudi money poured in that a mid-level Pakistani jihadist could make seven times the country's average wage. Jihad had become a global industry, bankrolled by the Saudis. Daniel Benjamin, the NSC's counterterrorism director, knew that Palestinian terror groups had used local charities, but that was nothing like what the Saudis had wrought. "The structure was not astonishing," Benjamin says. "The ambition and scale were."

This time something would be done. The NSC staff approached Vice President Al Gore, who told the Saudis that Washington wanted a meeting with their top security and banking officials. In June 1999, the NSC's William Wechsler, Treasury's Richard Newcomb, and others on the task force flew to Riyadh. They were met by a half-dozen senior Saudi officials, all dressed in flowing white robes and checkered kaffiyehs. "We laid everything out--what we knew, what we thought," said one official. "We told them we'd just had two of our embassies blown up and that we needed to deal with them in a different way."

Deep freeze. Two things soon became clear. The first was that the Saudis had virtually no financial regulatory system and zero oversight of their charities. The second was that Saudi police and bank regulators had never worked together before and didn't particularly want to start. Those were problems, but the Americans made it clear they meant business. If the Saudis didn't crack down, Newcomb explained, Treasury officials had the ability to freeze assets of groups and individuals who supported terrorists. That struck a nerve. The mention of wealthy Saudis prompted lots of nervous chatter among the Saudis. But on some points, the Saudis seemed genuinely puzzled. Some stressed that jihad struggles in certain regions, such as Israel and Chechnya, were legitimate. Still, the Saudis agreed they may have a problem. Changes, they said, would be made.

But none were. A second visit by a U.S. delegation, in January 2000, elicited much the same reaction. Worse, the team was getting the same treatment back home. Frustrated with Riyadh, Newcomb's Office of Foreign Assets Control at Treasury began submitting the names of Saudi charities and businessmen for sanctions. But imposing sanctions required approval from an interagency committee, and that never came. CIA and FBI officials were lukewarm to the idea, worried that sanctions would chill what little cooperation they had with their Saudi counterparts. But it was the State Department that objected most strenuously. "The State Department," recalls one official, "always thought we had much bigger fish to fry."

Not everyone in Foggy Bottom agreed. In the fall of 1999, Michael Sheehan, State's tough-minded coordinator for counterterrorism, had seen intelligence on the Islamic charities and was appalled. As part of a still-classified report, he wrote a cable instructing U.S. ambassadors to insist that host governments crack down on the groups. But some at State argued that the charities were doing important work and fought to kill Sheehan's initiative. The cable was deep-sixed.

Underlying the reluctance to confront the Saudis was a more fundamental failure--Washington's inability to recognize the strategic danger posed by the growing jihad movement, of which al Qaeda is but the head. The U.S. government, in effect, largely missed the gravest ideological threat to national security since the end of the Cold War. "There were people who got it at the analyst level, at the supervisory level, but all of us were outnumbered," says Pat Lang, the former Pentagon analyst. "You just couldn't get people to take seriously the world of Islam and the threat it represented."

Consider the work of the National Intelligence Council, which is tied closely to the CIA and reports directly to its director. In 1999, the NIC brought together experts from across America to identify global trends--key drivers, they called them--that would affect the world over the next 15 years. A senior intelligence official, the anonymous author of *Through Our Enemies' Eyes*, which chronicles the rise of al Qaeda, described to U.S. News how he perused the NIC draft report and was shocked to see that Islamic fundamentalism was not listed among the key drivers. The analyst sent a note to the NIC chief, stressing that there were nearly a dozen Islamic insurgencies around the world, knitted together by Saudi money, al Qaeda, and thousands of Afghan veterans. The response: "I got a Christmas card back with a note hoping my family was well," the man recalls. The NIC's final report, *Global Trends 2015*, barely mentioned radicalism in the Islamic world. The NIC's vice chairman, Ellen Laipson, later wrote that their report "shied away" from the issue because it "might be considered insensitive and

unintentionally generate ill will."

The lack of vision extended to the incoming Bush administration, say counterterrorism officials. Early in the Bush term, they say, Treasury Secretary Paul O'Neill moved to kill a proposed terrorist asset-tracking center that the NSC task force had pushed.

The 19 hijackers, of course, obliterated any lingering concerns about sensitivity and Saudi ill will. Over the next year, police raided the offices of Saudi-backed charities in a half-dozen countries. The Treasury Department ordered the assets of many of them frozen, including those of al Haramain branches in Bosnia and Somalia. At the Saudi High Commission in Bosnia, which coordinated local aid among Saudi charities, police found before-and-after photos of the World Trade Center, files on pesticides and crop dusters, and information on how to counterfeit State Department badges. At Manila's international airport, authorities stopped Agus Dwikarna, an al Haramain representative based in Indonesia. In his suitcase were C4 explosives.

Outside Washington, federal agents raided offices of the IIRO and Muslim World League, along with over a hundred other Islamic groups, nearly all based--at least on paper--in two buildings in the Virginia suburbs. Many share directors, office space, and cash flow. For two years, investigators have followed the money to offshore trusts and obscure charities which, according to court records, they believe are tied to Hamas, al Qaeda, and other terrorist groups. To date, no groups have been indicted. "You can't trace a cent to any terrorist," says attorney Nancy Luque, whose clients include several of the firms.

The big Saudi charities, for their part, also deny wrongdoing. The Muslim World League, al Haramain, and the IIRO all declined to answer questions from U.S. News, but IIRO Secretary General Adnan Basha told the Arab press that "there is not a single shred of evidence" tying the group to terrorists. Says al Haramain director Sheik Aqil al-Aqil: "We set up this institution to preach Islam peacefully. It's very strange that we are described as terrorist."

But as more evidence has become public, Saudi officials have finally admitted that something is indeed seriously wrong. In June of this year, they promised reforms. Charities would be audited, officials in Riyadh vowed, their overseas activities curtailed. The ubiquitous zakat boxes have been banned. Saudi officials liken the situation to U.S. funding of the Irish Republican Army. During the 1970s and '80s, IRA activists raised millions of dollars from Irish-Americans, despite British pleas that the funds were backing IRA terrorism. "The Saudis are not diligent donors," says Chas. Freeman, a former ambassador to Riyadh whose Middle East Policy Council receives Saudi funds. "They've never asked us what we're doing with their money." The Saudis' record, Freeman says, is not one of complicity but of "negligence and incompetence."

Getting serious. Not everyone, obviously, agrees. A \$1 trillion lawsuit names Saudi princes, businessmen, and charities for funding the terrorists behind the 9/11 attacks. Brought by more than 900 victims' family members, the suit is winding its way through the U.S. courts. The withholding of 27 pages in Congress's 9/11 report last June--detailing Saudi funding and ties to al Qaeda--has only fed suspicions. Counterterrorism officials also remain wary that the Saudis will make good on their pledges to reform. Only after triple suicide bombings struck Riyadh on May 12 did the regime get serious about cracking down, they say. Since then, the Saudis have arrested more than 200, broken up a dozen al Qaeda cells, and begun sharing intelligence as never before. "The Saudis didn't really get it," says Wechsler, the former NSC coordinator. "They didn't get it after the '98 embassy bombings, after the Cole bombing, after 9/11, after Bali. They got it after May 12."

That remains to be seen. This year Saudi officials announced the closing of all of al Haramain's offices overseas. That came as news to its director, al-Aqil, who in July told Reuters that he was still running branches in Egypt, Yemen, Sudan, Mauritania, Nigeria, and Bangladesh. Al-Aqil, say Saudi officials, is now under investigation for fraud. In Pakistan, meanwhile, President Pervez Musharraf has twice asked Riyadh to curtail the millions of Saudi dollars that pour into local Islamic political parties, jihad groups, and religious schools. Again, the Saudis have promised change, but Pakistani officials are skeptical. They point to the visit to Mecca last month by the chief of the Jamiat-e-Ul-lema Islam, one of Pakistan's top Islamic parties. The JUI shares power in Pakistan's Northwest Territory, where it provides sanctuary for Taliban members staging attacks in Afghanistan. Why was JUI's boss in Mecca?

For fundraising, JUI sources told U.S. News.

The bigger test for the Saudis will be reform of their society. The hijacking of their charities by the jihad movement occurred because of support by the Saudi fundamentalist religious establishment. That won't be easy to change. Since May 12, officials in Riyadh say, they have purged some 2,000 radical clerics from their mosques and ordered the jihadist rhetoric turned way down. But bringing Wahhabism into the 21st century won't be easy. "We need time," says Abdullah Alotaibi, a political scientist at King Saud University in Riyadh. "You can't change 70 years of history overnight."

With Monica Ekman and Aamir Latif in Karachi